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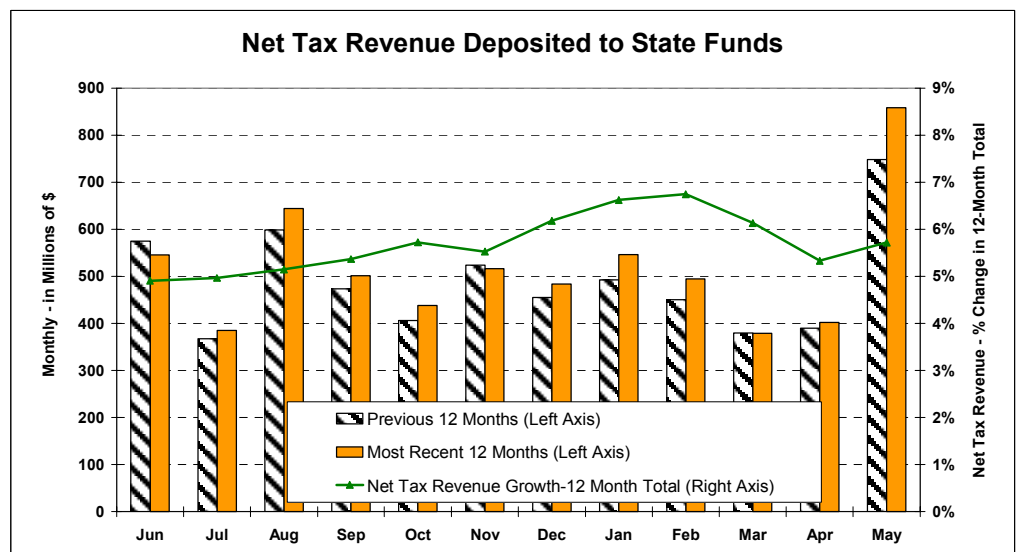
ADMINISTRATIVE SERVICES  
 TIMOTHY C. FALLER

## MEMORANDUM

TO: Members of the Iowa Senate and  
 Members of the Iowa House of Representatives  
 FROM: Jeff Robinson  
 Shawn Snyder  
 DATE: June 12, 2007

### Twelve-month Total Net Tax Receipts Through May 31, 2007

The attached spreadsheet presents net State tax receipts for the 12-month period ending May 2007 with comparisons to the previous 12 months. May 2007 to May 2006 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were collected, along with the refunds issued against those taxes.



### Month of May Comparison

May net tax receipts totaled \$858.2 million, an increase of \$109.3 million (14.6%) compared to May 2006. Major taxes contributing to the month's change include:

- Individual Income Tax (positive \$90.0 million, 28.3%) – Gross receipts were up \$97.3 million due to a large increase in payments with tax returns. Income Tax refunds were \$7.3 million higher for the month.
- Corporate Income Tax (positive \$5.8 million, 12.1%) – Gross receipts increased \$1.6 million and refunds decreased \$4.2 million. Corporate Income Tax continues to show strong growth, but at a declining rate.

- Sales/Use Tax (positive \$20.0 million, 7.4%) – General Fund Sales/Use Tax receipts increased a strong \$16.4 million and Road Use Fund Use Tax increased \$5.5 million. Tax refunds increased \$1.9 million.
- Fuel Tax (negative \$5.3 million, -13.4%) – Gross Fuel Tax revenue increased \$1.0 million while refunds processed in the month increased \$6.3 million.
- Cigarette & Tobacco Taxes (positive \$11.4 million, 123.9%) – The Cigarette Tax was increased from \$0.36 per pack to \$1.36 per pack on March 16, 2007. The rate for other tobacco products also increased.
- Insurance Premium Tax (negative \$9.7 million, -53.0%) – The Insurance Premium Tax rate is being phased-down from 2.0% to 1.0% in 0.25% increments.

### **Year-over-Year Comparison – Net Tax Revenue**

During the 12-month period ending May 2007, net revenue from all taxes deposited to State funds totaled \$6.196 billion, an increase of \$335.1 million (5.7%) compared to the prior 12 months. Major contributors to the change and the year-over-year dollar and percentage change include:

- Individual Income Tax (positive \$233.0 million, 9.7%) – Growth has generally been strong, highlighted by a big jump in early December, a flat April, and a strong increase in May. The latest 12 months are boosted by changes to the State's income tax withholding tables that started April 2005 and ended April 2007.
- Corporate Tax (positive \$101.0 million, 42.3%) – Corporate tax has shown strong growth since 2003, with a significant increase in the rate of growth over the last 12 months.
- Sales/Use Tax (positive \$0.1 million, 0.0%) – The rate of Sales/Use Tax growth has been falling steadily in recent months. Higher gas prices are likely contributing to the lagging receipts of both the General Fund and the Road Use Tax Fund (vehicle sales), while the General Fund is also impacted by slowing home construction.
- Motor Fuel Tax (negative \$45.3 million, -9.4%) – The large decrease is due to an unusual \$38.0 million Fuel Tax deposit that occurred during June/July 2005. That deposit was likely coded as Fuel Tax incorrectly. Adjusting for that deposit, the year-over-year Fuel Tax decrease is approximately \$7.3 million.
- Gambling Tax (positive \$39.3 million, 15.7%) – New casino boats have started operations and existing track casinos have introduced table games during the last 12 months.
- Cigarette and Tobacco Tax (positive \$20.7 million, 21.1%) – The tax rate for cigarettes and other tobacco products was increased March 16, 2007.
- Insurance Premium Tax (negative \$15.3 million, -11.8%) – The Insurance Premium Tax rate is being reduced over multiple years.

### **Tax Spotlight – Cigarette Tax and Tobacco Tax**

Tobacco products are taxed under the authority of Chapter 453A, Code of Iowa. Based on law changes during the 2007 legislative session:

- Cigarettes (and little cigars) are taxed at \$.068 per cigarette (\$1.36 per pack of 20).
- Snuff is taxed at \$1.19 per ounce.
- Cigars are taxed at 50.0% of the wholesale price per cigar, not to exceed \$0.50 per cigar.
- All other tobacco products are taxed at 50.0% of the wholesale price.

The current tax rates went into effect on March 16, 2007.

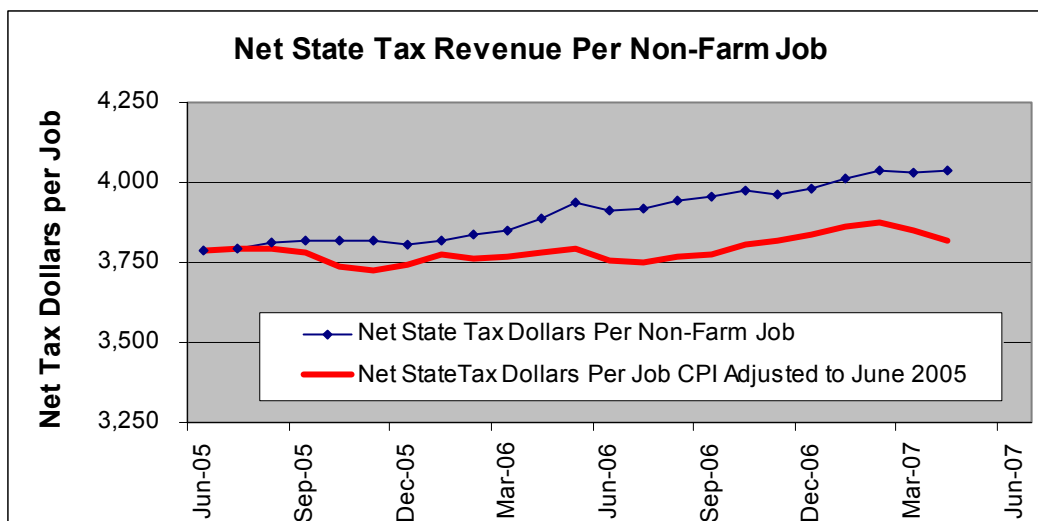
The Iowa Cigarette Tax was enacted in 1921 at a rate of \$.02 per pack of 20 cigarettes (HF 678, Cigarette Tax Act of 1921). The Cigarette Tax rate was increased periodically and reached \$0.34 per pack in 1988. In 1989 the tax was lowered to \$0.31 per pack and then increased in 1991 to \$0.36 per pack. The tax remained at \$0.36 per pack until this past Legislative Session.

The Tobacco Tax was enacted in 1967 at a rate of 10.0% of the wholesale price (HF 702, Division 1, Tax Modification Act of 1967). The tax was increased to 15.0% in 1985, 19.0% in 1988, and 22.0% in 1991. The rate stood at 22.0% of the wholesale price until this past Legislative Session.

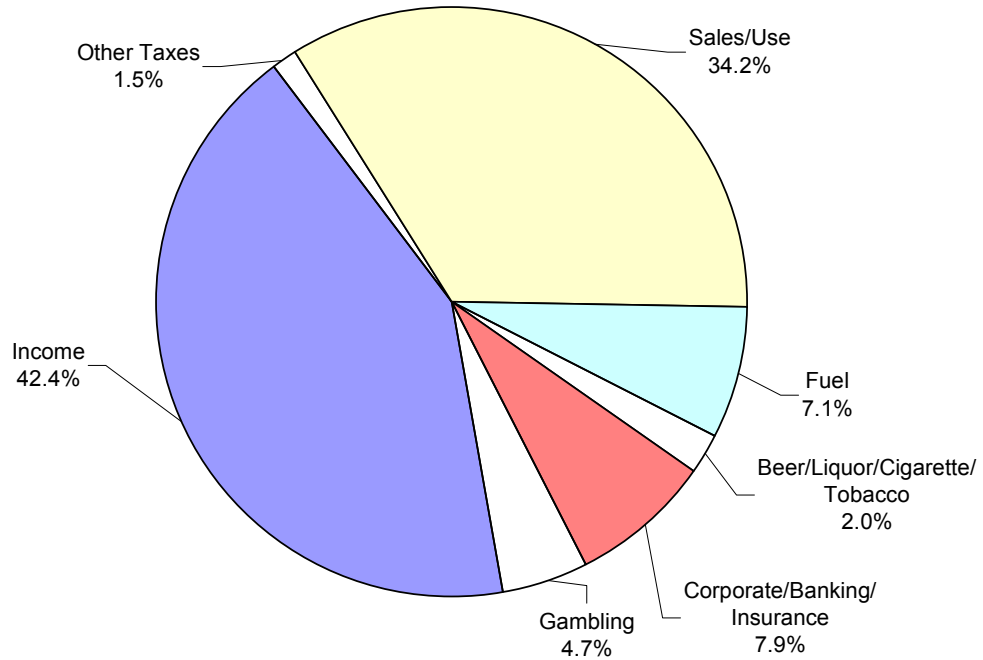
The tax imposed on cigarettes must be paid by the person making the first sale in Iowa. Cigarette stamps affixed to the package indicate the tax has been paid. Cigarette Tax returns are to be filed by the holder of a state or manufacturer's permit by the 10th day of each month for the preceding calendar month. Tobacco (other than cigarettes) Tax returns must be filed by the 20th day of each month for the preceding calendar month. Revenue received from the Cigarette and Tobacco Tax is deposited in the State General Fund. Beginning in FY 2008, the first \$127.6 million generated from the Cigarette and Tobacco Tax is appropriated annually to the Health Care Trust Fund (Chapter 453A(35A), Code of Iowa).

### Tax Revenue and Employment

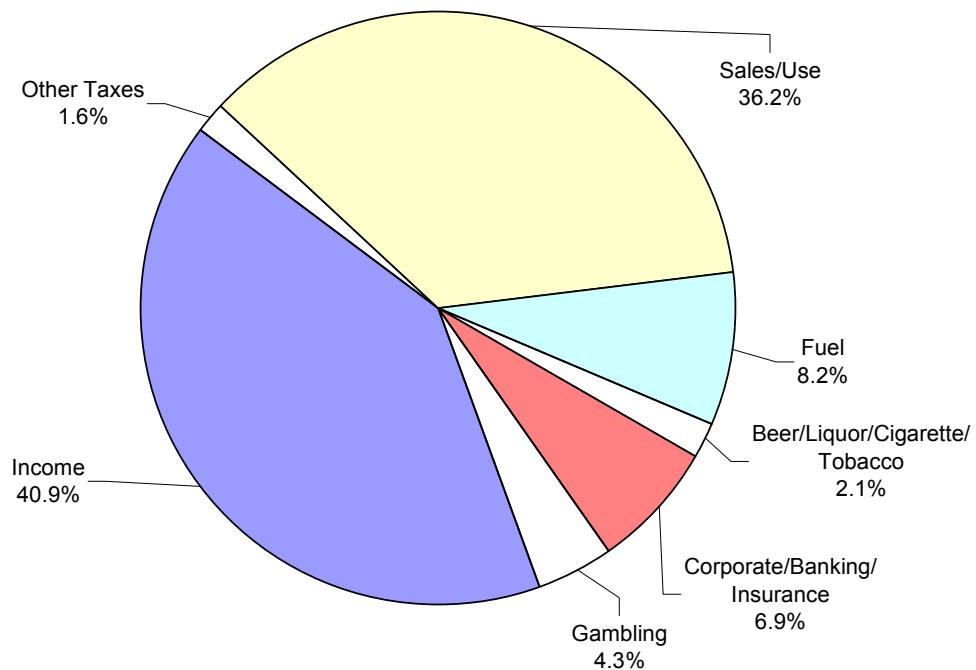
The average reading for Iowa non-farm employment over the 12 months ending April 2007 is 1,509,200, and net State tax receipts over the same 12 months totaled \$6.086 billion, or \$4,037 per non-farm job. This is \$247 (6.5%) higher than the per-job average for June 2005. Over that same time period, inflation (CPI-U) increased 6.3%. Therefore, tax revenue per job has exceeded the rate of inflation since June 2005 by roughly 0.1% per year. The following chart provides an historical perspective of tax collections per non-farm job and inflation-adjusted collections per job.



**Net State Tax Revenue - Twelve Months Ending May 2007**  
**Net Revenue = \$6.196 Billion**



**Net State Tax Revenue - Twelve Months Ending May 2006**  
**Net Revenue = \$5.860 Billion**



## Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

<b>Net Tax by Tax Type</b>	<b>Total Previous 12 Month Period</b>	<b>Total Most Recent 12 Month Period</b>	<b>12 Month \$ Change</b>	<b>12 Month % Change</b>	<b>Month of May 2006</b>	<b>Month of May 2007</b>	<b>May \$ Change</b>	<b>May % Change</b>
Banking	32.9	32.7	-0.2	-0.6%	6.8	4.3	-2.5	-36.8%
Beer & Liquor	19.7	20.2	0.5	2.5%	1.6	1.6	0.0	0.0%
Cigarette & Tobacco	98.1	118.8	20.7	21.1%	9.2	20.6	11.4	123.9%
Corporate Income	238.6	339.6	101.0	42.3%	48.0	53.8	5.8	12.1%
Fuel	483.5	438.2	-45.3	-9.4%	39.5	34.2	-5.3	-13.4%
Gambling	249.9	289.2	39.3	15.7%	26.3	27.8	1.5	5.7%
Individual Income	2,394.6	2,627.6	233.0	9.7%	317.9	407.9	90.0	28.3%
Inheritance	71.6	73.9	2.3	3.2%	7.9	7.2	-0.7	-8.9%
Insurance	129.3	114.0	-15.3	-11.8%	18.4	8.6	-9.8	-53.3%
Other Taxes	4.4	3.6	-0.8	-18.2%	2.2	1.0	-1.2	-54.5%
Real Estate Transfer	18.6	18.5	-0.1	-0.5%	1.4	1.5	0.1	7.1%
Sales/Use	2,119.1	2,119.2	0.1	0.0%	269.7	289.7	20.0	7.4%
<b>Total Net Taxes</b>	<b>5,860.3</b>	<b>6,195.6</b>	<b>335.1</b>	<b>5.7%</b>	<b>748.9</b>	<b>858.2</b>	<b>109.3</b>	<b>14.6%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	6,510.4	6,856.4	346.0	5.3%	799.5	920.9	121.4	15.2%
Tax Refunds	-650.0	-660.9	-10.9	1.7%	-50.8	-62.7	-11.9	23.4%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	4,900.2	5,242.5	342.3	7.0%	660.2	768.8	108.6	16.4%
Road Use Tax Fund	732.1	686.2	-45.9	-6.3%	59.2	59.4	0.2	0.3%
Non-GF Gambling	190.9	230.3	39.4	20.6%	26.3	27.8	1.5	5.7%
Other State Funds	37.2	36.6	-0.6	-1.6%	3.0	2.2	-0.8	-26.7%
<b>Local Option Taxes *</b>	<b>599.5</b>	<b>652.2</b>	<b>52.7</b>	<b>8.8%</b>	<b>53.3</b>	<b>57.0</b>	<b>3.7</b>	<b>6.9%</b>

\* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

## **Tax Categories Used in Table**

**Franchise (bank) Tax:** Taxes on banks are deposited to the State General Fund. State Credit Union Tax is included on this line also.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited to the State General Fund, the Liquor Control Fund, and a small amount is deposited to a Department of Economic Development fund for wine promotion.

**Cigarette & Tobacco Tax:** Cigarette and the tobacco products tax revenue is deposited to the State General Fund.

**Corporate Income Tax:** All Corporate Tax is deposited to the State General Fund.

**Motor fuel tax:** All Motor Fuel Tax is deposited to one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling tax:** The first \$60.0 million of Gambling Tax revenue each fiscal year is deposited to the State General Fund. Other funds receiving deposits of Gambling Tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, The Gambler's Assistance Fund, the County Endowment Fund, the Endowment for Iowa's Health Account, and the Vision Iowa Fund.

**Individual Income Tax:** Most Individual Income Tax revenue is deposited to the State General Fund. Other destinations include the Workforce Development Fund (\$4.0 million) and Child Daycare Fund (\$2.6 million). In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited to a State fund. That revenue is not included here.

**Inheritance Tax:** All Inheritance Tax is deposited to the State General Fund.

**Insurance Premium Tax:** All Insurance Premium tax is deposited to the State General Fund.

**Other taxes:** Other taxes include Brucellosis Eradication Property Tax (deposited to a Department of Agriculture and Land Stewardship's fund), Drug Stamp Tax (State General Fund), Utility Replacement Property Tax (State General Fund), and Car Rental Tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to a separate account to fund tax collection activities (tax gap).

**Real Estate Transfer Tax:** Real Estate Transfer Tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 95.0% to the State General Fund and 5.0% to the Shelter Assistance Fund.

**Sales/Use tax:** General Sales/Use tax is deposited to the State General Fund, while most vehicle Use Tax is deposited to the Road Use Tax Fund. An annual amount of \$17.0 million of vehicle Use Tax is deposited to the Underground Storage Tank Program.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Local option taxes include School Infrastructure Local Option Sales Tax (SILO), Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and Hotel/Motel Tax.

## **Report Database**

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.